

UNITED STATES DEPARTMENT OF AGRICULTURE



LINKING U.S. AGRICULTURE TO THE WORLD

U.S. Market Profile for Distilled Spirits

COMMODITY AND MARKETING PROGRAMS – PROCESSED PRODUCTS DIVISION
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EXECUTIVE SUMMARY

The U.S. market for distilled spirits, including whiskeys, vodka, gin, tequila, rum, brandy, cordials, and liqueurs, is growing steadily. The size of the retail distilled spirits market in the United States for 2003 was \$42.7 billion. This market is forecasted to reach nearly \$60 billion in yearly sales by 2008. Prices for overall distilled spirits are expected to rise, with prices for the imported product rising at a slightly higher rate than prices for domestic spirits. In 2003, on-trade sales by value in bars, restaurants, cafes, and other food services sources were 58 percent of retail sales while off-trade sales made through retail outlets were 42 percent of retail sales. The distilled spirits industry has a 3-tiered distribution structure. Each tier operates independently of each other. In quantity terms, 75 percent of sales are made through retail outlets, and 25 percent are made in bars, restaurants, and cafes. Over half of retail sales are made through liquor stores.

Approximately 196 million Americans are within the legal drinking age of 21. The Distilled Spirits Council of the United States estimates that 120 million Americans consume beverage alcohol. U.S. yearly per capita consumption of distilled spirits has increased from 4.6 liters in 1997 to 4.9 liters in 2003. Various sources predict yearly increases in volume consumption between 1 and 3 percent from now until 2010. The value growth of distilled spirits in the U.S. is on average 5 percent per year since 1997. Whiskey is the largest category of spirits sold, followed by vodka. Together, they account for more than half of all spirits sold in the U.S.

Key production states are Kentucky, Tennessee, Minnesota, Indiana, Missouri, and Virginia. Many U.S. distilled spirits companies operate as producers and importers of distilled spirits. New trends include pairing cocktails with food in much the same way as wine has been paired with food, bringing back classic cocktails, and informing consumers more about caloric content.

The United States currently has a negative balance of trade in distilled spirits of over \$3 billion. In value terms, U.S. distilled spirits exports have been growing over the past five years, reaching \$717 million in 2004. Whiskies, including bourbon, represent over half of all exports by value. In quantity terms, export growth has been up and down. Industry sources believe that, in general, 5 percent of U.S. production is exported. Industry sources also feel that growth in export value should continue to be positive. The top five markets for U.S. distilled spirits exports in value terms are the United Kingdom, Canada, Germany, Australia, and Japan. The U.S. distilled spirits industry has benefited from trade negotiations through increased market access, although trade barriers continue to exist in some countries.

The value of imported distilled spirits has grown steadily in recent years, equaling \$4 billion in 2004. The United States imposes no import duties on the vast majority of distilled spirits imports, except for certain low-valued rums and undenatured ethyl alcohol. While the United States has a negative balance of trade in distilled spirits, U.S. bars, restaurants, and stores licensed to sell liquor are expected to offer distilled spirits

from around the world in order to be considered well stocked. Imports accounted for 22.9 percent of domestic consumption by quantity in 2003.

The biggest sales period for the U.S. distilled spirits industry is from Thanksgiving to New Year's Eve, during which about 40 percent of all the year's sales takes place. Distilled spirits are planned purchases rather than impulse purchases.

Overview of the U.S. Market¹

Market Size

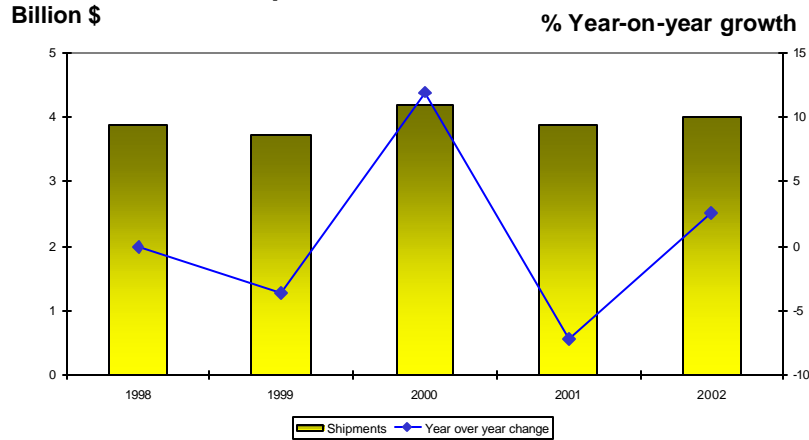
- In 2003, *Euromonitor International* reports that the sales value of distilled spirits in the United States was \$42.7 billion retail, up 7.1 percent from the previous year. The U.S. market for distilled spirits is growing at a moderate rate, with a compound annual growth rate, since 1997, of 5.2 percent in value, and 2.5 percent in quantity.
- On-trade sales made through bars, restaurants, cafes and other food services sources were \$17.8 billion in 2003, while off-trade sales made through retail outlets were \$24.8 billion.
- Industry sources expect revenues to be up about 8 percent in 2004, and prices to increase about 2 percent. Consumers are trading up to better quality, higher priced products.
- *Euromonitor* forecasts a 32 percent increase in value from 2004 to 2008, and a 21 period increase in quantity during the same time period. This growth would represent a nearly \$60 billion market in 2008.
- As of the 2000 U.S. Census, over 196 million Americans are within the legal drinking age, out of a total population of over 281 million Americans.

Major Product Segments

- Distilled spirits include whiskeys, vodka, gin, tequila, rum, brandy, cordials, and liqueurs. Distilled spirits are alcoholic beverages obtained by the distillation of fermented agricultural products. Wine and beer are not included in this sector. Distilled spirits are not included in overall U.S. agricultural trade statistics.
- According to the Economic Census, the total value of U.S. distilled spirits shipments in 2002, not including brandy, was over \$4 billion dollars, while bottled distilled spirits were over \$3 billion of that total. Shipments are defined as withdrawals of U.S. product from producer warehouses and are not considered retail value.

¹ This report draws from a variety of sources, including trade databases, industry associations, U.S. Department of Commerce surveys, and other commercial analysis, and was compiled by Dorsey Luchok, Agricultural Economist, under the supervision of International Strategic Marketing Group Team Leader Wayne Batwin. The Foreign Agricultural Service, Processed Products Division, is responsible for the forecasts in this report unless otherwise stated. Additional information is available from the Processed Products Division. Telephone: (202) 720-6343, Internet: <http://www.fas.usda.gov/agx/AGX.html>.

U.S. Distilled Spirits Value of Product Shipments 1998-2002



Source: U.S. Census Bureau

- Other production data includes the following items:

Distilled Spirit Segment Production - 2002

Segment	Product Shipments in U.S. Thousands
Cordials/Liqueurs	\$391,794
Gin	\$287,259
Bottled Cocktails	\$49,145
Other (includes rum, whiskey and vodka)	\$3,329,269

Source: U.S. Census Bureau, for individual segment production data, some figures are not published to avoid disclosing data of individual companies, particularly of whiskey and vodka manufacturers.

- Since 1997, the value growth of distilled spirits in the United States is on average around 5 percent per year. In 2003, the following percentages, which have been reasonably consistent for the past four years, were reported for retail and food service sales, with whiskey dropping slightly and vodka increasing slightly:

Distilled Spirits Sales by Type, Retail and Foodservice, 2003

Product	Percentage of Sales
Whiskey	27%
Vodka	24%
Liqueurs	14%
Rum	11%
Cognac	8%
Gin	6%
Tequila	5%

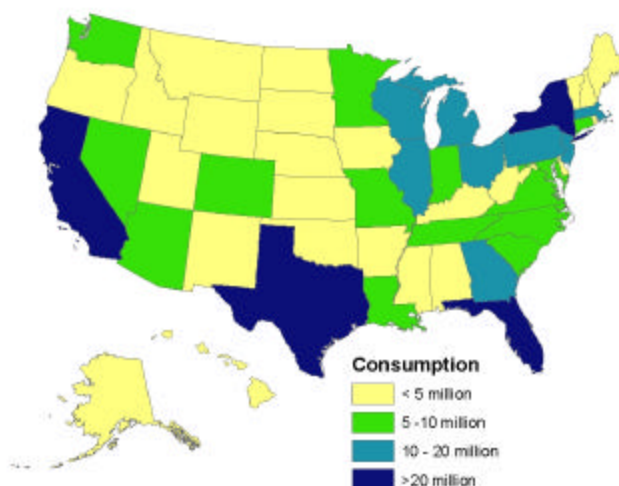
Product	Percentage of Sales
Brandy	4%
Other Spirits	1%

Source: Euromonitor, totals may not sum due to rounding.

Apparent and Per Capita Consumption

- The Distilled Spirits Council of the United States (DISCUS) estimates that, in general for any recent year, 120 million Americans consume beverage alcohol (which includes wine and beer). This figure represents 63 percent of Americans within the legal drinking age.
- According to the U.S. International Trade Commission (USITC), apparent U.S. consumption of distilled spirits in 2003 was \$6.9 billion, which represents a 6.6 percent change since 2002. USITC's figure was calculated by taking the value of distilled production as supplied by the Commerce Department, less exports plus imports. These values are low because they are based on the values of producer or wholesaler shipments, rather than retail values. Apparent consumption has grown slowly but steadily since 1998.
- The following information from DISCUS shows U.S. consumption by state. Four geographically dispersed states show the greatest consumption: New York, Florida, Texas, and California. This information is not broken out into per capita consumption, since consumption is attributable to state visitors and to state residents. Large consumption states tend to be major tourism states.

Apparent U.S. Consumption of Distilled Spirits, by State in Wine Gallons* 2003

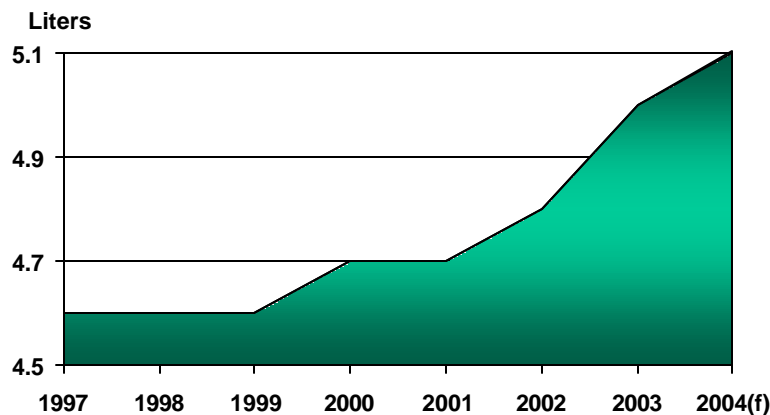


Source: DISCUS

*Note: A wine gallon is the liquid measurement equivalent to the volume of 231 cubic inches.
1 wine gallon = 3.785 liters.

- According to *Euromonitor*, U.S. per capita consumption of distilled spirits has increased from 4.6 liters in 1997 to 5 liters in 2003, an increase of nearly 9 percent or 1.4 percent annually. Volume consumption is expected to increase each year through 2010 between 1 to almost 3 percent, depending on the source. DISCUS notes that other changes, such as public policy changes favorable to the industry or rising personal incomes, could further increase consumption, but are more difficult to predict exactly.²

U.S. Per Capita Consumption of Distilled Spirits



Source: Euromonitor, 2004 forecast by Euromonitor

Consumption Trends

- In much the same way that wine has been paired with food, the industry is looking for combinations of distilled spirits that will complement the eating experience. A recent event by DISCUS paired rum punch with pan-Asian cuisine, and a classic Rose cocktail with contemporary French cuisine.³
- Consumers are becoming more interested in the classic cocktails, such as the Martini. There is also interest in updating the classics with new ingredients, such as the Apple Martini or the Apple Manhattan.⁴

² “Spirits, Wine and Beer Volume Projections”, DISCUS, [12 Dec 2002], p. 9.

³ “DISCUS Reports Successful Merger: Cocktails Paired With Food,” DISCUS Press Release, <http://www.discus.org/mediaroom/print.asp?PRESSID=157>. [30 Apr 2004].

⁴ “70th Anniversary of Prohibition Repeal December 5th Brings Revival of Classic Cocktails with a Twist,” DISCUS Press Release, <http://www.discus.org/mediaroom/print.asp?PRESSID=134>. [4 Dec 2003].

- Consumers like to be informed about the caloric and carbohydrate content of what they buy. Many distilled spirits categories do not contain carbohydrates, but it remains to be seen if producers will use that as a selling point, as the low-carb trend may be waning.
- In a general sense, people are more likely to drink beverage alcohol as incomes rise. This effect is more pronounced for distilled spirits, followed by domestic wine, and by regular (not imported, not micro-brewed) beer.⁵

Industry Characteristics

Industry Structure

- According to the 2002 Economic Census, the state with the most distilleries is Kentucky with 16 establishments. Other key production states include Tennessee, Minnesota, Indiana, Missouri, and Virginia. The total number of U.S. distillers is 82.
- The number of U.S. distilleries with 20 or more employees is 42. The number of distilleries in Kentucky with 20 or more employees is 16.
- Key U.S. marketers of distilled spirits include Fortune Brands, Inc., Constellation Brands, Inc., Bacardi & Company, Brown-Forman, Heaven Hill Distilleries, and Ernest and Julio Gallo Winery (for brandy). Non-U.S. companies such as Diageo Plc, Allied Domecq Plc, Pernod Ricard Groupe, and V&S Vin & Sprit AB are important in the U.S. market as well.
- Many of the key U.S. companies operate as producers and importers of distilled spirits.
- Imported distilled spirits accounted for almost 23 percent of purchases based on quantity in 2003.

Industry Trends

- USITC reports that the U.S. distilled spirits industry underwent major consolidation and restructuring in the 1990s. Most major distilled spirits companies are owned by multi-national corporations. However, distilled spirits companies are not permitted to engage in the vertical integration of producers, suppliers, and distributors that might normally be seen in other industries.
- Most major distilled spirits companies have a diversified product line that includes more than just distilled spirits, such as wine, beer, and flavored alcoholic beverages. Others are involved in entirely unrelated products, such as producing china, glassware, hardware, silverware, luggage, and golf products. Some companies also market products such as baseball caps, shot glasses, and t-shirts that display their logo.

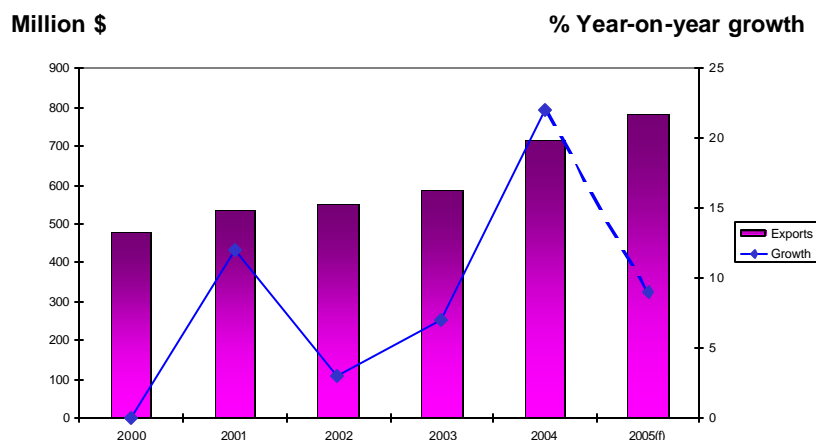
⁵ "Spirits, Wine and Beer Volume Projections", DISCUS, [12 Dec 2002], p. 4.

Trade

U.S. Exports

- The value of U.S. distilled spirits exports was \$717 million in 2004. Exports of U.S. distilled spirits have, in general, been growing in value terms. In quantity terms, growth has been up and down. It is difficult to measure the percent of any year's production that is exported, because of the aging process for many distilled spirit products, which places products for sale at different times. Industry sources feel that, in general, 5 percent of U.S. production is exported.
- Growth of exports in 2004 was positive in part because the U.S. dollar has been weak relative to many local currencies over the past 18 months. A weak dollar makes U.S. products cheaper for international consumers. U.S. distilled spirit companies have been focused on marketing efforts to increase sales as well. FAS forecasts a value of \$780 million for U.S. distilled spirits exports in 2005.

U.S. Exports 2000-2005



Source: U.S. Dept. of Commerce

Top 5 destinations for U.S. Exports

- Over the past five years, around 61 percent U.S. distilled spirits exports in value and 65 percent in quantity have been sold in the top five markets. For value, the top five markets are the United Kingdom, Canada, Germany, Australia and Japan. For quantity, it is Canada, Australia, Mexico, Japan, and Ireland.
- The NAFTA liberalized trade in distilled spirits among Canada, Mexico, and the United States. Between 1994 and 2004, U.S. exports of distilled spirits to NAFTA partners increased from \$26.4 million to \$118 million, an increase of nearly 347 percent. During the Uruguay Round, key countries agreed to launch negotiations to eliminate distilled spirits tariffs; a zero-for-zero agreement

eliminating tariffs on “brown” spirits (for example, whisky and brandy) was concluded at the end of the Round and was expanded in 1997 to encompass “white” spirits (such as vodka and gin) from a number of key countries. Since 1994, U.S. exports have increased substantially from \$399 million to \$717 in 2004.

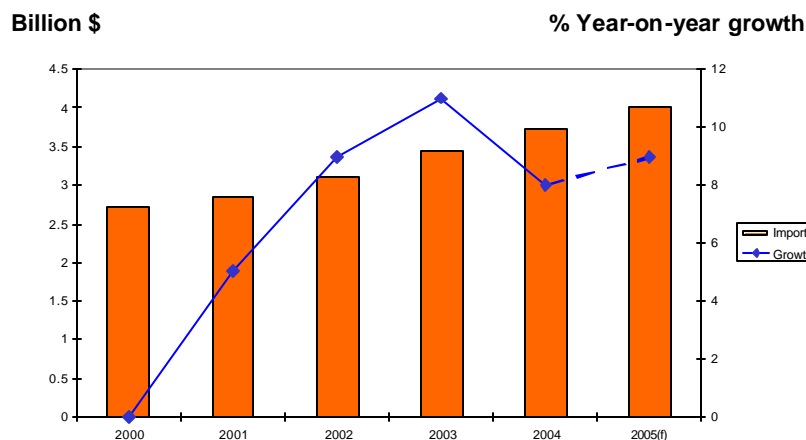
- Potential target markets for the U.S. distilled spirits industry include Argentina, Brazil, China, Colombia, India, New Zealand, Panama, Philippines, South Africa, Russia, Vietnam, Poland, and Thailand. DISCUS is hopeful that these countries may be interested in zero-for-zero tariff elimination.⁶

U.S. Imports

- The value of imported distilled spirits has grown steadily in recent years. In 2004, the United States imported \$3.7 billion in distilled spirits. Quantity imported in 2004 was 483 million LITPF (liters, proof gallon equivalent).
- Over the past five years, 79 percent of U.S. distilled spirits imports in value and 81 percent in quantity have been purchased from the top five suppliers. For value, the top five suppliers are France, the United Kingdom, Mexico, Sweden, and Canada. For quantity, they are Canada, the United Kingdom, Mexico, France, and Sweden.
- Distilled spirits (except for certain low-valued rums and undenatured ethyl alcohol) enter the United States duty-free, but are subject to federal excise tax. For more information, the entire Harmonized Tariff Schedule of the United States can be viewed at <http://www.usitc.gov/taffairs.htm>.
- Growth of imports in 2005 should be positive because of consumer demand but slowing from previous years. FAS forecasts a value of \$4 billion for U.S. distilled spirits imports in 2005. U.S. demand for imports is strong and so far has not been very sensitive to higher prices. However, value growth may not reach predicted levels due to the falling dollar, making imported spirits more expensive to U.S. consumers.

⁶ “Distilled Spirits: Sectoral Tariff Elimination”, DISCUS [Mar 2004] p. 2.

U.S. Imports 2000-2005



Source: U.S. Dept. of Commerce: Forecast: FAS

U.S. Balance of Trade

- The U.S. balance of trade in distilled spirits continues its negative trend as domestic manufacturers lose market share to international competition. In 2004, there was a negative balance of trade of over \$3 billion dollars.
- While improving the balance of trade is desirable, there is considerable consumer demand for imports. U.S. retailers, bars, and restaurants are expected to offer distilled spirits from around the world in order to be considered well stocked. Scotch, tequila, Irish whiskey, cognac, and Canadian whiskey are popular distilled spirits that must be imported. Most U.S. distilled spirits companies both produce and import their own products to offer a full range to consumers.
- For imports, product shares of vodka and whiskey have not changed greatly as a percentage of the total in quantity among the major products. Tequila has dropped as a percentage of the total, but has not dropped much in actual quantity. The value share of imported vodka is up, while the value share of other major distilled products has stayed constant.
- Undenatured ethyl alcohol, of an alcoholic strength by volume of 80 percent volume or higher for beverage purposes, represents the largest portion by quantity of U.S. exports, and the percent share of the total for this product has been up and down since 2000. In other quantity exports, whiskey export share is up, while other categories have dropped off or stayed constant. For value exports, whiskey represents the largest share and has been growing since 2000. Cordials are also growing. The export share of other products has been up and down since 2000.

U.S. Balance of Trade in Distilled Spirits
In U.S. thousand \$

Year	2000	2001	2002	2003	2004	2005(f)
U.S. IMPORTS	\$2,726,182	\$2,848,969	\$3,104,801	\$3,442,047	\$3,724,785	\$4,072,949
U.S. Exports	\$475,543	\$533,905	\$550,681	\$587,017	\$717,546	\$780,310
U.S. Balance of Trade	(\$2,250,639)	(\$2,315,064)	(\$2,554,120)	(\$2,855,030)	(\$3,007,329)	(\$3,292,639)

Source: U.S. Dept. of Commerce, parentheses indicate negative numbers. Forecast: FAS.

- U.S. firms that are considering exporting distilled spirits must review the research in their target markets and know that gains are frequently long term rather than short term. The following constraints/opportunity chart contains situations that U.S. firms must take into account in the decision to export. This chart is not exhaustive, but gives potential exporters examples of the types of situations they may face.

Constraints/opportunities Chart and Tariff Chart for U.S. Exports

Advantages/Opportunities	Challenges/Constraints
In China, tariffs on distilled spirits have been falling from 65 percent to 10 percent as they phase in their WTO obligations. Strong market growth is expected to continue.	Infrastructure and distribution channels are still underdeveloped in China. Product standards and labeling requirement may be problematic (and this situation is not unique to China, it can be found in some other markets as well).
Tariff rates imposed on distilled spirits decreased significantly for the ten countries that have recently joined the EU (except for some low-value rums).	Some Eastern European nations such as Poland produce a large quantity of distilled spirits domestically, which are of a high quality.
As of March 1, 2004, Finnish taxes on distilled spirits are reduced by 44 percent, and these tax cuts are being fully passed on to the consumers.	Low salaries make some markets very price-sensitive.
Distilled spirits were included in the World Trade Organization's (WTO) Uruguay Round's zero-for-zero negotiations. The U.S. and several trading partners agreed to eliminate their tariffs on most distilled spirits.	Many WTO members and most developing countries still impose high tariffs on imported distilled spirits.
There is a global trend of consumers willing to try new products.	Global trends in healthy eating may affect all beverage alcohol consumption.

Advantages/Opportunities	Challenges/Constraints
As recently completed Free Trade Agreements (FTAs) are implemented, the U.S. has an advantage over some of our competitors in those markets (example, the Australia FTA and the Chile FTA).	In large markets such as Thailand, large excise taxes are applied to the value of the product. While these are applied to both the imported and domestic product, the imported product excise tax calculation is based on the c.i.f. price plus import duties and other fees.
Japan is a major importer of distilled spirits.	The Japanese economy is recovering from a downturn. Younger Japanese consumers are switching to lower alcohol content drinks.

Sources: GAIN reports FI4001 and PL4025, USITC, and DISCUS⁷

Tariff chart for U.S. Exports by Major Regional Destinations

- To determine the applicable distilled spirits tariff, consult the following websites.

Tariff Chart	See http://www.fas.usda.gov/scripts/wtopdf/wtopdf_frm.asp Or http://www.ita.doc.gov/td/tic/tariff/country_tariff_info.htm
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- Major destinations for U.S. distilled spirits tend to have no tariffs. In the case of the United Kingdom and Germany, the tariffs on U.S. distilled spirits are zero on all products except certain low-valued rums.

Competitive Analysis

Domestic vs. Import Market Share

- By quantity, imported spirits represented 22.3 percent of distilled spirits sales in the United States in 2002 and 22.9 percent in 2003, based on federal excise tax data.
- Domestic distilled spirits manufacturers could better compete with imported products in other markets without non-tariff barriers such as labeling regimes, discriminatory excise taxes, and product standards such as chemical parameters that add little to the quality or the safety of the product.
- According to the U.S. Department of Commerce, International Trade Administration, the United States has successfully challenged and dismantled

⁷ Asa Lemon, "Finland, Wine/Beer: Finland Cuts Taxes on Alcoholic Beverages," [5 Mar 2004], GAIN report #FI4001, p. 1, Jolanta Figurska and Charlene Kastanek, "Poland Product Brief: Distilled Spirits," [13 Aug 2004] GAIN report #PL4025, p. 2, "Distilled Spirits: Sectoral Tariff Elimination", DISCUS [Mar 2004] p. 1.

discriminatory excise tax regimes in Japan, Korea, and Chile. Other countries, such as Argentina, Uruguay, Thailand, Colombia, and the Philippines still have discriminatory practices.

- Tariffs are as high as 40 percent in Latin America, and 170 percent in some parts of Asia.

Price and quality position of competitors

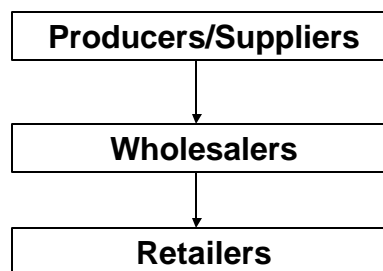
- Imported distilled spirits tend to be higher priced than domestic products and marketed to affluent consumers.
- Some types of distilled spirits will always be supplied through imports because they are not produced in the United States.
- There is a strong relationship between the advertising of specific brands and sales of that brand of imported product.

Market Organization and Distribution

Description of Distribution Channels

- USITC reports that the distilled spirits industry has a three-tiered structure, which developed out of post-prohibition federal legislation and the 21st Amendment to the Constitution. Each tier operates independently of each other and the businesses cannot have financial interests in any other tier.

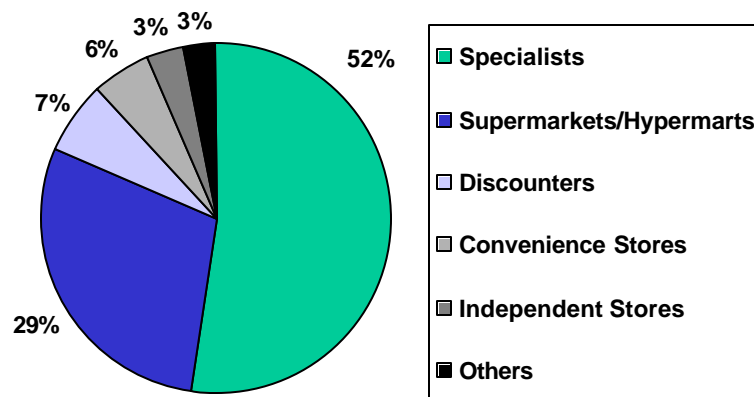
Distilled Spirits Industry Structure



Key Market Segments

- In the alcoholic beverages industry, there are two distinctions to keep in mind: on-trade and off-trade sales. On-trade sales are made through bars, restaurants, cafes, etc. Off-trade sales are made through retail outlets. On-trade sales are about one quarter of all U.S. distilled spirit sales in 2003, off-trade sales are about three-quarters in volume terms.⁸ In value terms, the ratio is about 58 percent on-trade and 42 percent off trade. The ratio of on-trade sales to off trade sales has stayed constant for the last five years.
- Over half of all off-trade sales of distilled spirits are made through liquor stores, and the next highest distribution channel is supermarkets or hypermarkets. Discounters, convenience stores, independent food stores and others (such as kiosks) are the remaining distribution points. Internet sales are not a high enough channel of distribution to be measured yet.

Off-trade Volume - 2003



Source: Euromonitor

Price Segments and Mark-up Structure

- The distilled spirits industry estimates that retail markup is 25 percent to 27 percent over the wholesale price. The wholesaler mark-up is typically 20 percent over cost (which includes supplier cost, transportation, and state excise tax). There is no reliable data on the average mark-up in food service and bars, but it is thought to be around 550 percent.

⁸ Euromonitor and DISCUS Comments.

- According to USITC, in control states (see the “License Requirements” section on the following page) retail prices for distilled spirits are uniform throughout the state. In other states, prices vary due to market factors.
- USITC further explains that federal and state taxes are important factors in determining the final price for the product. Taxes of all types tend to be a significant percentage of the retail price. Because of widely varying taxes by state, distilled spirit companies tend not to have national-scale pricing policies for their products. Retailers set the final price based on the taxes and desired profit margin.
- There are four pricing categories in distilled spirits: value, premium, high-end premium, and super premium. The definitions of these categories vary by company and type of product. For example, a 750 ml bottle of Tennessee Whiskey or Bourbon is estimated to be less than \$10 for value pricing, \$10 to \$16 for premium, over \$16 to \$22 for high-end premium and over \$22 for super premium.⁹
- Bureau of Labor Statistics Consumer Price Index figures show that prices of distilled spirits for home consumption have gone up nearly 30 percent from 1994 to 2003. Using a base year of 1997=100, prices have risen nearly 20 percent for distilled spirits consumed away from home (on-trade) from 1998 to 2003.

Typical marketing and promotion support

- The seven major holidays for distilled spirits sales in the United States are Thanksgiving (the fourth Thursday in November), Christmas, New Year’s Eve, Superbowl Sunday (in late January or early February), St. Patrick’s Day (March 17), Cinco De Mayo (May 5), and the 4th of July. The biggest sales time period is from Thanksgiving to New Year’s Eve, when the distilled spirits industry sells about 40 percent of annual purchases.
- Distilled spirits are usually not impulse purchases on the part of consumers. Purchases are made for gifts or to keep a home liquor cabinet well stocked.

Regulatory issues

License Requirements

- In 1933, the 21st Amendment of the U.S. Constitution repealed a prior amendment outlawing the sale of alcoholic beverages in the United States, putting alcoholic beverage legislation in the hands of the states.
- State governments directly control the wholesale and/or retail sales of distilled spirits in 18 states, where distilled spirits are purchased in “ABC” (alcoholic beverage control) stores. State and federal excise taxes, sales taxes, and other taxes can be applicable in states as well, depending on the state. The Federation of Tax Administrators publishes a list of state liquor excise tax rates. This list can be found at <http://www.taxadmin.org/fta/rate/liquor.htm>. In addition, information

⁹ David Ozgo, “Distilled Spirits: Segmentation by Category and Price,” DISCUS, 19 Dec. 2002, p. 8.

on federal excise tax can be found at
<http://www.ttb.gov/alcohol/info/atftaxes.htm>.

- Twenty-eight states allow retail purchases of alcohol on Sunday, though in some cases there may be limitations on the permissible hours of sale. Sunday has become the second largest shopping day of the week for all items.
- For all locations and for all days of the week, regulations regarding the purchase of bottled liquor in stores and liquor in foodservice establishments (bars and restaurants) are decided by the individual states. Even counties within states will often have different regulations regarding the sale and use of alcoholic beverages.

Labeling

- Depending on the product, distilled spirits labels must contain certain elements, including, but not limited to, brand name, alcohol content, name and address of bottler, packer or filler, country of origin, net contents, statement of age, state of distillation, and a health warning statement. For a complete list of labeling requirements and which distilled products they apply to, go to the Alcohol and Tobacco Tax and Trade Bureau (TTB) of the U.S. Department of the Treasury at http://www.ttb.gov/publications/alctab_pub/bevalcmanspirits/index.htm.
- Label applications for all alcoholic beverages must be made to the Advertising, Labeling and Formulation Division of the TTB. Their Web site is <http://www.ttb.gov/alfd/index.htm>. Sales are not permitted until the label has been approved.

Advertising

- According to the USDA's Economic Research Service (ERS), the top firms do most of the spending on advertising. In 1999, for each distilled spirits product segment, the top three firms generally spent well in excess of 75 percent of total advertising expenditures for the segment. The only exception was cordials and liqueurs, where the top three firms spent around 66 percent of the total. For a complete breakout by product segment, see the ERS worksheet at <http://www.ers.usda.gov/data/foodmarketindicators/foodmarketingsystem/table31.xls>.
- TTB is responsible for the administration of the Federal Alcohol Administration (FAA) Act, 27 U.S.C. chapter 8. Among the other provisions of the Act, the FAA prohibits misleading labels or advertising that could result in consumer deception.
- The distilled spirits industry practices self-regulation in advertising through the Code of Responsible Practices. To ensure the marketing of distilled spirits to adults, advertisements appear in TV and print media where the audience is expected to be at least 70 percent at or above the legal drinking age of 21. Models and actors used in distilled spirits advertisements are at least 25 years of age. Web sites for distilled spirits companies question visitors about their age. Advertising does not contain any mention of therapeutic claims.¹⁰ On March 8,

¹⁰ "Code of Responsible Practices for Beverage Alcohol Advertising and Marketing", The Distilled Spirits Council of the United States, <http://www.discus.org/industry/code/code.htm> [Oct 2003]

2005, DISCUS issued the first-ever report detailing complaints about specific alcohol advertisements, decisions of the industry's internal review board, and the actions taken by each advertiser.¹¹ This report, which will be issued semi-annually, can be found on the DISCUS Web site at <http://www.distilledspirits.org>.

- A Federal Trade Commission report noted that nearly 80 percent of advertising for distilled spirits was concentrated in magazines. Distilled spirits advertising is also found on cable television but does not appear on network television. The National Association for Stock Car Auto Racing (NASCAR) recently began allowing distilled spirits to be advertised on the cars. The industry also uses in-store promotions and event promotions such as having representatives at concerts or street festivals. Consumers can sign up for free tastings offered by some companies.
- Sources state that the goal of beverage alcohol advertising is to capture market share from another beverage alcohol product. Increasing overall alcohol consumption is not the point of beverage alcohol advertising.

Packaging

- Distilled spirits are typically sold in the following sizes:

Distilled Spirits Bottle Sizes

Metric Measure	U.S. Liquid Measure	Other Descriptive Terms
1.75 liters	59.2 oz	Half gallon or magnum
1 liter	33.8 oz	Quart
750 ml	25.4 oz	Fifth
375 ml	16.9 oz	Pint
200 ml	6.8 oz	Half pint
100 ml	3.4 oz	One-fourth pint
50 ml	1.7 oz	Nip

- Special offerings with packaging are not geared towards persons below the legal drinking age.¹²
- Packaging is used to show off the essence of the brand and is an artistic element which does influence consumer choice.

¹¹ "Distilled Spirits Industry Issues First-Ever Public Report on Advertising/Marketing Complaints", The Distilled Spirits Council of the United States, <http://www.discus.org/mediaroom/2002/release.asp?pressid=198>. [March 2005]

¹² "Code of Responsible Practices for Beverage Alcohol Advertising and Marketing", The Distilled Spirits Council of the United States, <http://www.discus.org/industry/code/code.htm> [Oct 2003]

Conclusions

The size of the distilled spirits market in the United States for 2003 was \$42.7 billion. This market is forecasted to reach nearly \$60 billion in yearly sales by 2008.

If U.S. income growth remains positive, U.S. consumers will trade-up on distilled spirits products. U.S. sales should also benefit from industry promotion of trendy cocktails and from pairing cocktails with food. More health-conscious consumers will want additional information on the caloric content and other attributes of distilled spirits.

Key industry trends include the consolidation of companies that began in the 1990s, and diversification of companies into other product lines. Other product lines generally include other beverage alcohol products and totally unrelated products such as housewares.

U.S. exports of distilled spirits in 2004 totaled \$717 million, and are forecasted to increase to \$780 million for 2005. The falling U.S. dollar is making U.S.-produced distilled spirits cheaper in other countries.

Because the U.S. distilled spirits industry has obtained increased market access from trade negotiations, U.S. exports should continue to increase. However, attention should be paid to the phase-in time period of any free trade agreement when projecting the point at which sales increases may occur.

New markets for U.S. distilled spirits will appear as countries come into line with their WTO commitments. However, in the case of China, the development of better infrastructure and distribution channels will need to take place. In addition, low salaries in some countries make these markets price sensitive. As incomes improve, for example in the ten new EU countries, U.S. distilled spirits sales should improve.

Export gains are also dependent on the continued dismantling of non-tariff barriers such as labeling regimes, discriminatory excise taxes, and eliminating product standards that are not based in science.

U.S. imports of distilled spirits in 2004 totaled \$3.7 billion, and are forecasted to increase to \$4 billion in 2005. However, the falling dollar makes imported distilled spirits more expensive to American consumers and may have an effect on purchases, causing the forecast to fall short. Even in the face of currency fluctuations, imports of distilled spirits are expected to continue growing.

The three-tiered structure of the industry is unlikely to change. Licensing and taxing changes are entirely dependent on the states and their legislatures. Changes such as elimination of Sunday “blue laws” and adding or eliminating state and locality taxes cannot be projected.

Appendix

Study Objectives

The purpose of this study is to give a general description of the U.S. distilled spirits market. The perspective is forward looking, using historical data as background. The intended audience for this report is the FAS foreign posts, Market Access Program (MAP) cooperators, and small to medium sized U.S. businesses.

Definition of Product

Distilled spirits include whiskeys, vodka, gin, tequila, rum, brandy, cordials, and liqueurs. Distilled spirits are alcoholic beverages obtained by the distillation of fermented agricultural products. Wine and beer are not included in this sector.

In the United States, beverage alcohol including beer, wine, and distilled spirits are marketed and sold to adults age 21 and over. Distilled spirits are typically used in recreational situations, and to a lesser extent to enhance the enjoyment of meals. Since the effects of alcohol can alter judgment, moderation in usage is key. Moderation is defined as no more than one drink per day for women and no more than two drinks per day for men. For distilled spirits, 1.5 ounces of 80-proof distilled spirits counts as one drink. To compare with other alcoholic beverages, 5 ounces of wine counts as one drink and 12 ounces of beer counts as one drink.¹³

Some groups of people should not drink alcoholic beverages, including children; adolescents; pregnant women or women who may become pregnant; breastfeeding women; persons with specific medical conditions or taking specific medications; persons who plan to drive or take part in other activities that require attention, skill, or coordination; and persons who cannot restrict their drinking to moderate levels.¹⁴

The major commodities used to manufacture distilled spirits (depending on the product) are corn, barley, wheat, rye, potatoes, sugar cane, and molasses. Other ingredients include dairy, juniper berries, herbs, spices, and various additives and flavorings. Most ingredients are sourced domestically.

¹³ “Dietary Guidelines for Americans,” United States Department of Agriculture and United States Department of Health and Human Services, Fifth Edition, Home and Garden Bulletin No. 232, p. 36. 2000.

¹⁴ “Dietary Guidelines for Americans: Executive Summary,”
http://www.health.gov/dietaryguidelines/dga2005/report/PDF/A_ExecSummary.pdf. [Aug. 2004]

Methodology and Sources

Data on distilled spirits manufacturing is collected every five years using a survey conducted by the U.S. Census Bureau. It is available to the public in the 2002 Economic Census. The full 2002 Economic Census will be deployed over the next two years, but data for the distilled spirits industry was made available in July 2004. The survey gives details on the quantity and wholesale value of manufacturers' shipments. In addition, the Annual Survey of Manufacturers is conducted by the U.S. Census Bureau for each of the four years between the Economic Censuses.

The U.S. Census Bureau survey reports the wholesale value of distilled spirits shipments, but retail value is often of interest. In the distilled spirits industry, the wholesale mark-up is typically 20 percent over cost (which includes supplier cost, transportation, and state excise tax). Retailer mark up is typically 25 to 27 percent. Also, imports and exports are the value declared by the shipper, which includes cost, insurance, and freight (c.i.f.)

The industry consensus is that distilled spirits are described by the following 4-digit Harmonized System (HS) code 2208, and its eight associated categories when described by the 6-digit HS Code, in addition to one 10-digit HS code from 2207. These codes are used for tracking imports and exports.

HS 4	HS 4 description	HS 6	HS 6 description
2208	Liqueur, spirits, and undenatured ethyl alcohol, <80%	220810	Compound alcoholic preparations of a kind used for the manufacture of beverages
		220820	Spirits obtained by distilling grape wine, grape marc
		220830	Whiskies
		220840	Rum and tafia
		220850	Gin and geneva
		220860	Vodka
		220870	Liqueurs and cordials
		220890	Alcoholic liqueurs not elsewhere specified
HS 4	HS 4 description	HS 10	HS 10 description
2207	Ethyl Alcohol	2207103000	Ethyl Alcohol undenatured, 80% alcohol or higher for beverage

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